# ANNUAL REPORT / The Kroger Co. 1975

# The Kroger Co.
# 1975 Annual Report

1014 Vine Street, Cincinnati, Ohio 45201
Telephone: 513-381-8000

## Contents



## DIRECTORS

**H. U. ANDREAE,** *Director and Former President,* The Jeffrey Company

**JAMES E. BAKER,** *Vice President*

**WILLIAM W. BOESCHENSTEIN,** *President,* Owens-Corning Fiberglas Corporation

**JACOB E. DAVIS,** *Former Chairman and President*

**LYLE EVERINGHAM,** *Senior Vice President*

**JAMES P. HERRING,** *Chairman of the Board and Chief Executive Officer*

**JACKSON C. HINDS,** *Chairman of the Board and President,* Entex, Inc.

**GENE D. HOFFMAN,** *President*

**T. BALLARD MORTON, JR.,** *President,* Orion Broadcasting, Inc.

**JOHN D. ONG,** *President,* The B. F. Goodrich Company

**W. GEORGE PINNELL,** *Executive Vice President,* Indiana University

**WILLIAM P. RUNYAN,** *Vice President; President,* Top Value Enterprises, Inc

**R. NELSON SHAW,** *Director and Former Chairman,* Mercantile Stores Company, Inc

**EDWARD D. SMITH,** *Chairman of the Board,* First National Holding Corp. and The First National Bank of Atlanta

**MORLEY P. THOMPSON,** *President,* D. H. Baldwin Company

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**ROBERT W. BRAUNSCHWEIG,** *Vice President*

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**ARTHUR JUERGENS,** *Vice President*

**WILLIAM G. KAGLER,** *Vice President*

**GEORGE W. KEITH,** *Vice President; President,* SupeRx Drug Stores

**RICHARD M. KOSTER,** *Vice President*

**GEORGE A. LEONARD,** *Vice President, Secretary and General Counsel*

**WILLIAM W. OLIVER,** *Vice President*

**WILLIAM P. RUNYAN,** *Vice President, President,* Top Value Enterprises, Inc.

**ROBERT E. SAFFRON,** *Vice President*

**JOHN L. STRUBBE,** *Vice President*

**IRLE R. HICKS,** *Treasurer*

TRANSFER AGENTS

The First National Bank of Cincinnati
111 E. Fourth Street
Cincinnati, Ohio 45202

Bankers Trust Company
2 Broadway
New York, New York 10004

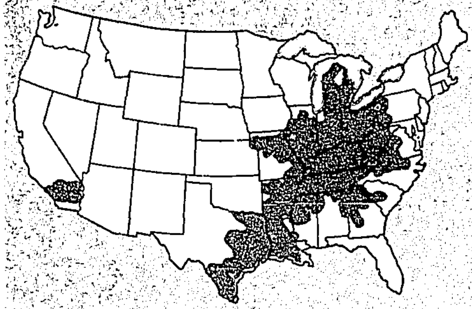
REGISTRARS

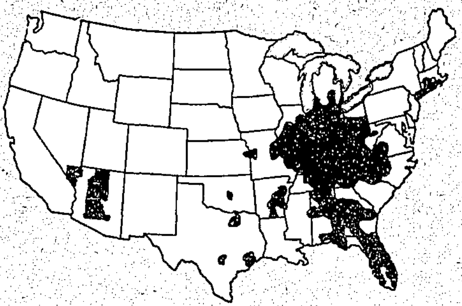
The Central Trust Company
Fourth and Vine Streets
Cincinnati, Ohio 45202

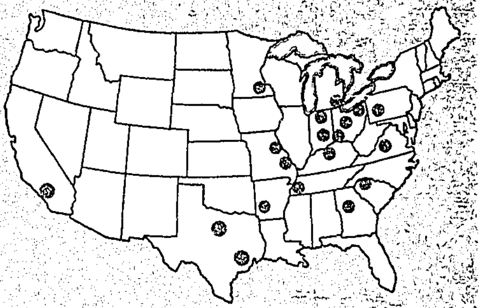
Chemical Bank
20 Pine Street
New York, New York 10005

New York Stock Exchange Listing — Symbol KR

• KROGER FOOD STORES • SUPERX DRUG STORES • MANUFACTURING FACILITIES







THE KROGER CO. is the sixth largest retailing company in the United States as ranked by total sales. The Company operates the country's third largest supermarket chain with 1220 supermarkets in 20 states, primarily in the Midwest and South. Kroger also manufactures and processes food for sale by these supermarkets. SupeRx Drug Stores, with 551 drug stores in 24 states at the close of 1975, is one of the largest drug store chains. Top Value Enterprises is the nation's second largest trading stamp company, and also is active in the fields of business incentives, promotional continuity programs, travel services, and amusement parks.

## Financial Highlights

| | 1975 | 1974 |
|---|---|---|
| SALES | $ 5,339,224,779 | $ 4,803,031,716 |
| NET EARNINGS | $ 34,441,210 | $ 45,238,860 |
| DIVIDENDS PAID | $ 18,298,199 | $ 18,088,341 |
| SHAREOWNERS' EQUITY | $ 425,836,684 | $ 420,208,282 |
| PER COMMON SHARE | | |
| NET EARNINGS | $ 2.55 | $ 3.36 |
| DIVIDENDS | $ 1.36 | $ 1.34½ |
| SHAREOWNERS' EQUITY | $ 31.57 | $ 31.16 |

A copy of the Company's 1975 report to the Securities and Exchange Commission, Form 10-K, is available to shareowners on request by writing: Irle R. Hicks, Treasurer, The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45201.

The annual meeting of shareowners will be held at the office of the Company, 1014 Vine Street, Cincinnati, Ohio on April 8, 1976 at 10 a.m.

# To our fellow shareowners:

Kroger sales during 1975 showed increasing strength as the year progressed, and during the fourth quarter were 15.9% ahead of 1974. Sales for the year totaled $5.3 billion, up 11.2% from 1974. The sales trend is encouraging as is the increase in customers we are serving today. Average weekly food store sales now are approximately $82,000 compared to $70,000 a year ago.

Earnings for 1975 were $34.4 million or $2.55 per share, compared to $45.2 million or $3.36 per share in 1974. While earnings were disappointing, significant progress continues in several important areas of the business . . . which will insure the profitable growth and vitality of The Kroger Co.

An essential part of a successful retail operation is the right kind of store in the right location. Through the past four years of our stores improvement program, 293 new food stores have been opened, 249 stores expanded and remodeled into virtually new stores, and 505 older, unproductive stores have been closed.

Our significant store improvement progress has been accomplished during a volatile period in the retail food industry. Kroger's emphasis on planning has enabled the company to successfully and soundly finance this store building program. At the same time, we have maintained our 74-year record of paying dividends from current earnings.

With nearly half of Kroger food stores new or remodeled during this period alone, we are providing the type of shopping environment that will attract an increasing number of customers to Kroger. Kroger superstore sales per customer and sales per square foot are greater than in conventional stores and operating expenses are lower as a percent to sales. Our plans call for 80 new food stores during 1976, along with 25 remodels.

Accompanying the need for the right kind of store is an intensified effort to meet the changing shopping habits of the consumer. We are today responding to shopper needs with renewed attention to quality, pricing, service, safety, and convenience. Our marketing plans are designed to bring the highest level of value and satisfaction to Kroger customers.

Some of the achievements of the past year which are helping us to become a stronger company are highlighted in this 1975 Annual Report. The retail food industry has traditionally been a competitive one. As the necessity for increased sales volume becomes crucial for profitable growth, competition has intensified. This now is a standard part of our business environment which we recognize and are including in our planning.

As noted in the Third Quarter Report, SupeRx drug store earnings were significantly below the previous year. Steps have been taken throughout SupeRx to return the company to normal levels of profitability. Our efforts at SupeRx during the coming year will be concentrated on developing the 202 new, large stores which have been opened during the past four years.

SupeRx sales have responded to strong promotional activities and aggressive pricing during the year. While this program to stimulate sales is costly in the short run, improvement of sales and winning of additional shoppers is an essential ingredient for SupeRx' return to an acceptable level of profitability. The strong sales position during the year (up 17.4%) is encouraging.

George W. Keith, who joined SupeRx in 1961 and most recently was vice president of marketing, was named president of SupeRx Drug Stores in May.

Food prices always are a subject of great public interest. That certainly will be the case in 1976. Currently there is less intensive food price inflation. We are hopeful that this is the beginning of an era of greater stability in food product costs. At the same time, continued increases in all other costs relating to our business (and thus a very important factor in the retail price of food) are expected. Wages, utility costs, rail and truck rates, and other operating expenses continue to escalate. Kroger is continuing its efforts to control these costs through our conservation efforts As a result, Kroger — despite all these cost increases — is bringing food to our shoppers today at lower gross margins than at any time in recent years.

Kroger will in the months ahead need both higher sales and substantial improvement in productivity because of increased operating costs. Excellent progress was made in reducing expenses in relation to sales during 1975, but much remains to be accomplished.

John D. Ong, president of The B. F. Goodrich Company, has been elected a Kroger director.

In December, Gene D. Hoffman was elected president of The Kroger Co. Since 1956, when he joined Kroger as advertising, sales promotion and public relations manager in the St. Louis, Mo., retail division, Mr. Hoffman's responsibilities have covered a broad range of company activities He has headed food manufacturing operations since 1964, and as senior vice president, has had major responsibilities in merchandising and operations for the firm's supermarkets, as well as in the total management of the company. As Kroger president, Mr Hoffman's extensive experience and leadership abilities will further contribute to the company's progress.

We are confident that the success of our emphasis on sales, the excellent facilities we have as a result of the company's store building program, and the results of our expense control efforts will enhance Kroger's ability to achieve a more acceptable level of earnings performance during 1976.

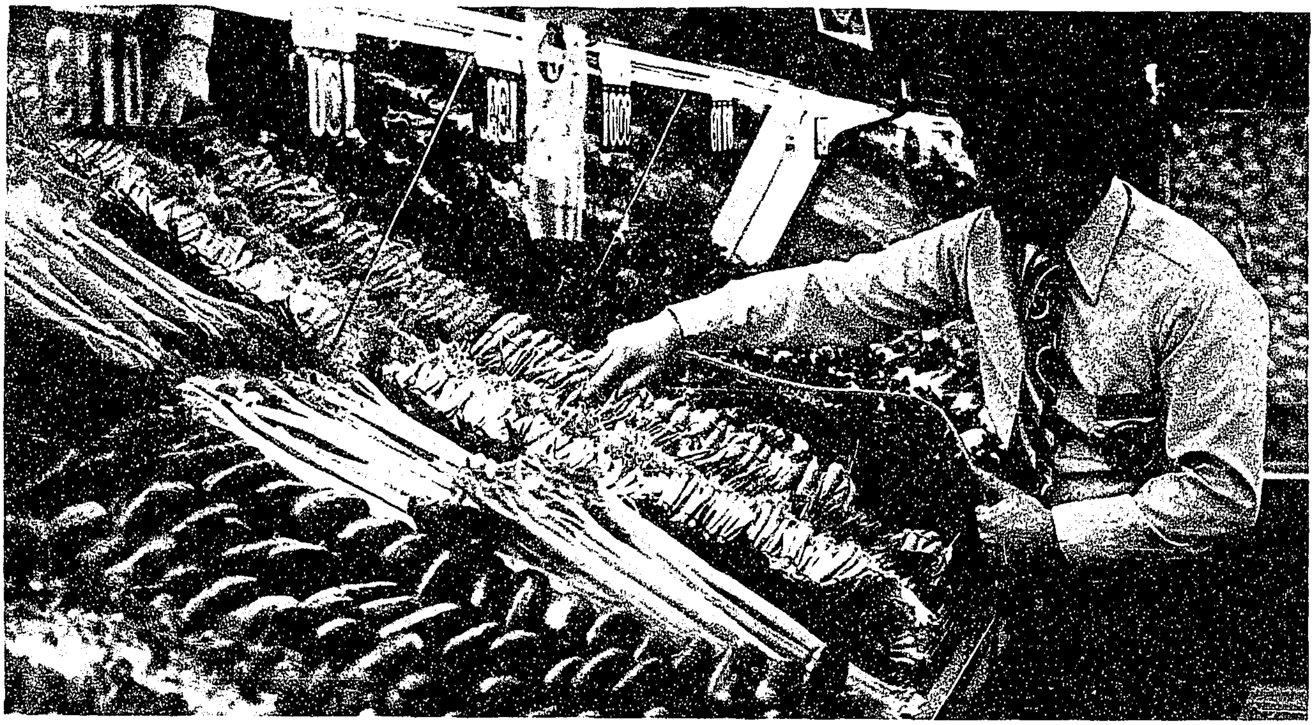
Sincerely,

James P. Herring

James P. Herring
Chairman of the Board

March 3, 1976

# The right kind of stores...Quality products at the right price...Variety...Choice...



*The Kroger supermarket of today is very different from its counterpart of five years ago. And the change has been dramatic . . . more than the natural evolution which is continually reflected in the supermarket industry.*

The new look of Kroger as 1976 begins is perhaps best typified by the produce department in the Bellevue, Kentucky, Kroger store which is pictured on the cover of this Annual Report.

Five years ago, Kroger stores offered almost 100% prepackaged fresh fruits and vegetables, as many other supermarkets still do today. Neat. Efficient. But not exciting.

As superstores reached the Kroger scene, consumers—individually and through our formal research—gave the message loud and clear. *Shoppers wanted the highest quality produce at the lowest possible price. They wanted variety. They wanted the right to choose between two oranges and a five-pound bag. A friendly voice. Service and a smile. And Kroger was listening.*

But it wasn't an overnight job. Operating a "bulk" produce department (the trade term for unpackaged produce) is not just a matter of dumping loose apples into a display case. Re-training of personnel and revision of handling methods was required.

*Above: Exciting color and variety greet shoppers at this Bellevue, Kentucky, Kroger store. Produce department head Joe Macaluso gives special attention to customer service and to keeping fresh fruits and vegetables at top quality.*

*Below: Families across the nation are discovering the joys of live plants in the home. Responding to this interest, more and more Kroger stores (including all new and remodeled stores) will feature attractive live plant departments.*

# Product Information...Safety...Service...Well-trained, helpful personnel...

In some 600 Kroger stores today, produce hosts or hostesses such as our cover girl, Pam Duffey, are available to weigh purchases . . . or to answer questions like: *"How do you know when an avocado is ripe?"* or *"Which kinds of apples are best for cooking?"* Pam also assists produce department head Joe Macaluso to keep displays full and fresh. Like spray-misting celery and lettuce every half hour to keep it crackling-fresh.

In addition to Kroger training in handling and displaying fresh fruits and vegetables, Joe and Pam also attended a series of seminars conducted by Ohio State University Extension Service experts . . . learning how the foods they sell should be cooked and stored, tasting new and unusual items, being briefed on the nutritional content of fresh fruits and vegetables. All to prepare them to serve Kroger shoppers better.

They're proud of their new roles. *"We're the first department shoppers see,"* they say. *"It's up to us to make sure that the first impression of our stores is a good one."*

By the end of 1976, nearly 80% of Kroger produce sales will come from departments such as this . . . developed in direct response to consumer needs and wants.

*What is happening in Kroger produce departments throughout the company is even more significant as an example of the direction of the total Kroger merchandising thrust. The same kind of thorough research, attention and action is taking place in every section of the store.*

**The Retail Store — Key to Success**

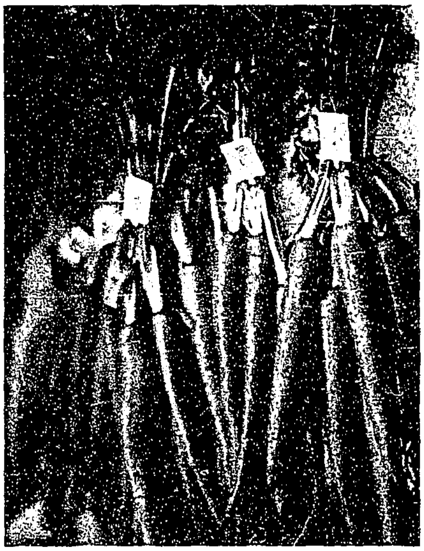
The image a store communicates to customers comes from many factors. The store itself, first of all.

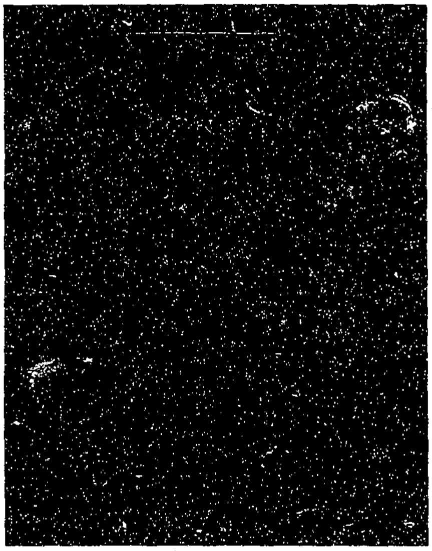
Nearly half of Kroger's retail food stores are new or remodeled during the past four years. These are colorful, warm, friendly stores. Spacious. Filled with 12,000 to 15,000 food and non-food items . . . to meet the family's weekly supermarket shopping needs.

According to Chain Store Age Magazine, Kroger's building program during 1975 ranked fifth in the nation among retailers of all kinds (including both food and general merchandise). While Kroger has completed a key part of its store improvement program, there is a continuing need for further development. During 1976, 80 new stores are planned, along with 25 remodels, most of which will also include sizable enlargements. These 25 remodeled stores will, in effect, be new stores when they are completed.

What has happened during the past four years of intensive store improvement activities? Since the end of 1971, when the superstore program was implemented, Kroger has opened 293 new stores, remodeled 249, and closed 505 outmoded, unproductive stores.

There were 1220 supermarkets in operation at the end of 1975. Kroger now has the heaviest store closings behind it. Total food store square footage rose more than 800,000 square feet during 1975.





***VALUE AND SATISFACTION FOR THE CONSUMER***

# The right kind of stores...Quality products at the right price...Variety...Choice...

Approximately 43% of total square footage now is in superstores. *(A superstore is defined as roughly 25,000 to 42,000 square feet or more in size, with the warmly-hued superstore decor, and offering a wide variety of food and non-food merchandise, such departments as wine or greeting cards, and service departments such as delicatessens and bakeries.)*

Superstores not only produce more sales per square foot, but they also are more efficient to operate . . . and they sell more of the items which produce a better return. This can help Kroger to improve profits while keeping prices low.

*Linda Corcoran, above, is one of a growing number of women who are moving into store management careers. "It's a new and exciting world," says Linda, former Kroger general office employee and mother of three who is co-manager of a Hamilton, Ohio, Kroger store "The store is where everything that happens in the company comes together."*

### Customer Satisfaction

Kroger's merchandising and advertising thrust in all markets is based on solid research. In the past 18 months, for example, more than 27,000 shoppers have been interviewed on such subjects as the quality of Kroger produce, meats or groceries . . . the friendliness and cleanliness of stores . . . variety, low prices. Kroger plots its image with the consumer against every major competitor. And when a change is indicated . . . as was the case with prepackaged produce . . . action is being taken.

With pocketbooks squeezed by inflation and product shortages, shoppers during 1975 gave low prices top priority, along with quality. This means good weekly specials. In some areas, cents-off coupons in weekly ads. But more than anything, it means everyday low prices . . . and Kroger is giving shoppers the right prices.

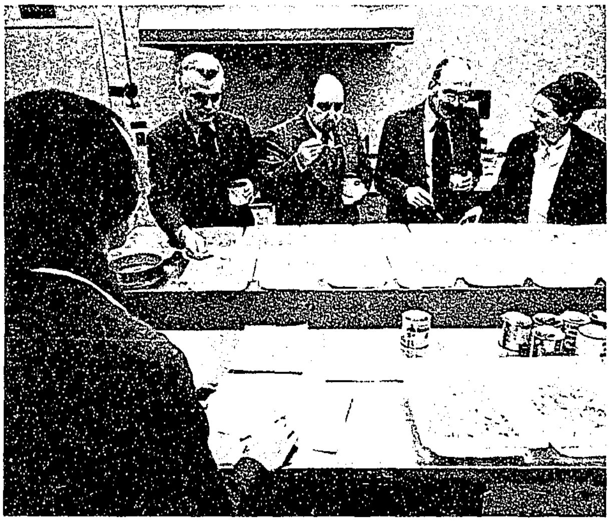
### Kroger Brand — Quality and Value

While Kroger stores offer a wide assortment of leading national and regional brand products, an exclusive benefit enjoyed only by Kroger shoppers is the quality and value represented by Kroger brand products.

Consumer response to Kroger's own brand products continued to grow during 1975. They account for approximately 25% of total food store sales, and nearly three-fourths comes from products which are manufactured in our own plants. Some 300 new products were introduced in 1975.

The standards for the Kroger brand are high. Company policy calls for most products to receive extensive testing and approval by technological experts, the buying team, and often consumer panels. In order to qualify, the product must either compare favorably in blind taste tests against competing products or score within its specified quality grade range.

But assurance of quality starts much sooner than that — with specifications outlining all factors which might affect the quality of the finished product . . . from ingredients to processing techniques. In-plant inspections and production sampling also help provide assurance of adherence to Kroger's quality standards.



*Director of quality assurance Charline Hatchett, at right above, joins Kroger buyers and technologists during a quality audit of canned corn.*

# Product Information...Safety...Service...Well-trained, helpful personnel...

An important part of the development of a new product is the decision as to whether it will be processed in Kroger manufacturing facilities or whether it would be more advantageous to have it made to Kroger specifications by an outside food manufacturer.

To make sure that Kroger shoppers get full value when they buy Kroger brand products, regular quality audits are held. Kroger merchandisers and buyers join with the quality assurance staff to rate Kroger products on a blind basis versus nationally-advertised products and house brands of competitors. Often seminars are held in which outside experts rate the products on an impartial basis to further identify and confirm quality.

Nutrient information now has been added to the labels of some 500 Kroger canned and packaged products, including fruits and vegetables, soups, bread, milk, cheese, cereals . . . and many other foods. More than 1900 products are open-dated, including packaged meats and produce, making Kroger's open-dating program one of the most complete in the United States.

### Dairy Products Leaders

High quality of Kroger dairy products continues to capture customer votes . . . also winning critical acclaim and top awards at the Kentucky State Fair, as they have for several years. Chosen to receive a gold medal as *"Best in Category"* were Kroger Ice Cream, Ice Milk, Yogurt, and Sour Cream. Blue ribbons went to Kroger Cottage Cheese and Buttermilk.

The company's new cheese plant in Rochester, Minnesota, which has a capacity of handling 130 million pounds of cheese a year, will in 1976 complete its facilities with a continuous processing system designed to give greater control of quality. This will be one of only two such installations in the United States, although the technique has been used with great success in Europe.


*. . . In-store sampling sells shoppers on high quality of Kroger cheese.*

### Delicatessens Popular Spots

*Kroger delicatessens are fun places! Party trays and birthday cakes speak of happy times. Pickled herring, golden fried chicken, thick loaves of pumpernickel, and paper-thin slices of fragrant salami . . . all are part of the delicatessen delights regularly served up with a smile and a thank-you.*

At the end of 1975 there were 477 delicatessens located in Kroger supermarkets (most with a bakery adjoining). Last year, Kroger delicatessens dispensed more than two and three-quarter million pounds of potato salad and enough luncheon meat to make a sandwich for everybody in the states of Missouri, Ohio, and Texas!

### More Efficient Operation + Better Customer Service

As operating costs continue to rise, Kroger must search for ways to do the job better — with twin goals of improving customer service and operating more efficiently and effectively. Among the developments which are helping Kroger achieve these goals are:

— *Electronic ordering systems* used by store personnel to order merchandise from the warehouse will be in all stores by the end of the first quarter of 1976, enabling orders to be placed more efficiently and accurately . . . helping to keep shelves fully-stocked and providing faster service. A wand scanner is coupled with a smaller battery-operated tape recorder, thus eliminating errors in transcribing penciled notes and delays in placing orders.

— *Energy conservation* is essential, both from the standpoint of controlling costs and from the obligation which all Americans have to conserve energy for tomorrow. While our utility costs rose $12.4 million during 1975, they would have been considerably higher had it not been for our conservation efforts. (For example, more than 43 million KWH were saved in those stores which were open during both 1974 and 1975.) Better scheduling and maximization of loads helped Kroger save an additional million gallons of diesel fuel on top of three million saved in 1974. About half of Kroger stores now use a heat recovery system which reclaims heat from the refrigeration system which normally would be lost. This system is being installed in all new and remodeled stores.

— Kroger now has two installations of the new electronic scanner checkout system, one in Indianapolis and one in Middletown, Ohio. Instead of manually ringing up each price, the checker merely passes products bearing an identifying printed bar symbol (Universal Product Code) over a scanner slot in the counter. The scanner sends identification to the computer . . . then the name of the product and the price flash on a screen for the shopper's view and are printed simultaneously on the receipt tape. *Benefits:* Faster checkouts, improved accuracy, and a receipt which actually prints out the name of the product as well as the price paid for each item (the tape can be used by the shopper to compare prices from week to week or from store to store). This development represents a major breakthrough in improving checkout service, and eventually will produce other benefits, such as information recovery for merchandising and for inventory control.

*. . . Electronic scanner checkout system .*

**Training and Development**

The Kroger Education Center provided management skills education and merchandising training for 920 Kroger men and women during 1975. The major portion of the center's training efforts continues to be concentrated on the people who are running superstores . . . store managers and store department heads.

Training for new superstore managers combines classroom and in-store sessions, with the store serving as the laboratory to demonstrate class discussions. Managers also have the opportunity to discuss "what and why" with the company's key merchandisers.

*Below: Director of delicatessen operations Lou Kauffmann discusses merchandising and operation of in-store delicatessens with superstore manager training class.*

**Corporate Responsibility and Consumer Education**

Voluntary responses to consumer needs have benefited the consumer and also have served to improve the company's operations. For example, open dating assists proper product rotation in addition to pleasing shoppers. Nutrition labeling, while giving shoppers more information about the foods they buy, demonstrates to customers that the Kroger brand product contains the same nutrients as more expensive brands.

Kroger believes that our corporate responsibility activities should be directly related to our business. Some of the ways in which we have acted to fulfill our corporate citizenship in a way that ties in with our primary business —food—include:

*. . Superstore managers training class*

*— "Supermarket classroom" sessions set up a classroom right in the store. Kroger merchandisers are the instructors, teaching customers how to shop more wisely. Other consumer education projects include distribution of a pamphlet of tips on how to economize on food expenditures . . . regular informational columns in newspaper food ads which give shopping advice . . . or, in a community where there is a large Spanish-speaking population, distributing the Spanish-language version of the U.S. Department of Agriculture booklet, "How to Buy Food."*


*. . . Pre-schoolers who participated in a Cincinnati nutrition education project sponsored by Kroger*

*— Grants from Kroger helped encourage consumer education at several important levels. A Cincinnati project, for example, demonstrated that considerable nutritional awareness can be developed in pre-school children when many eating patterns are already forming. In St. Louis, an Urban League program conducted in Kroger stores educated inner-city residents in nutrition and food shopping. An Indiana State University program resulted in four Community Consumer Conferences dealing with food and family budgeting.*

Kroger has made a long-range commitment to the consumer — to operate the best stores in each community . . . geared to give quality and value . . . to provide the information customers need to help them make wise shopping decisions. And through doing a good job for the consumer, meeting the total interests of employees and shareowners.

**Top Value Enterprises**

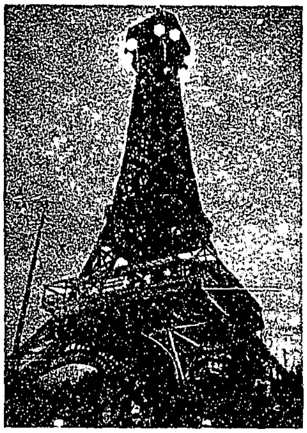
*Although best known as the nation's second largest trading stamp company, Top Value also is actively engaged in the fields of business incentives, promotional continuity programs, travel services, and through Family Leisure Centers, amusement parks.*

*"What Kings Dominion sells is happiness,"* wrote an enthusiastic newspaper columnist after visiting the family amusement park near Richmond, Virginia, which was built by Family Leisure Centers (a joint venture of Top Value Enterprises and Taft Broadcasting Company).

This "happy place" attracted attendance during its opening season of more than 1.8 million visitors who enjoyed such attractions as Lion Country Safari, five theme areas (such as the Enchanted Forest of Hanna-Barbera), or the Rebel Yell, "biggest and fastest twin racing roller coaster in the world." Both revenues and per-capita spending were above expectations.

Improvements are underway to make Carowinds park, near Charlotte, N. C., a more complete family leisure complex. Acquired from previous owners in 1975, Carowinds' attendance of 912,835 was less than anticipated. Improved marketing, better ride capacity (including a twin racing roller coaster) and live entertainment such as is offered at Kings Dominion are included in 1976 plans.

While trading stamp revenues have declined in recent years, the signing of new accounts and the increased use of stamps by a variety of diversified accounts indicate a more favorable outlook for the future. Operations have been reduced in line with stamp revenues. Top Value's travel and incentive merchandise business continued to operate at expected levels during 1975. New and renewal business for the coming year indicates a healthy trend.



# SupeRx Drug Stores...

The year 1975 was a difficult one for SupeRx.

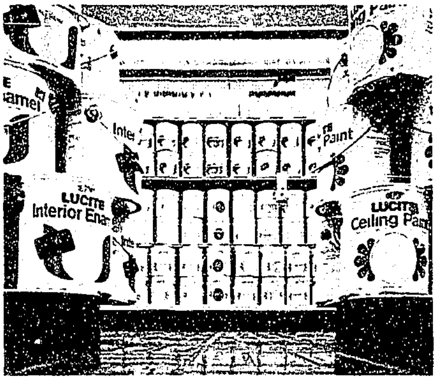
During the year, SupeRx mounted a sustained sales drive in response to sharply higher operating expenses and smaller-than-expected sales growth in the new larger giant drug centers . . . with the recognition that this could cost substantially in profits, in the short run, but with the knowledge that this is an investment to build a better base from which to grow in future years.

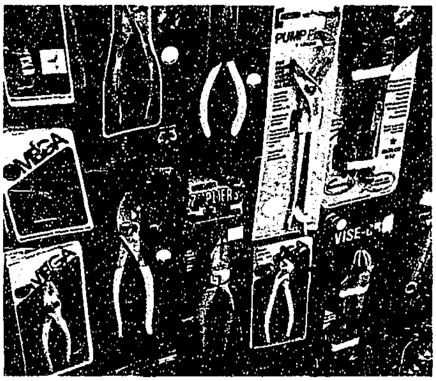
This sales drive continued throughout the year and produced a 17.4% increase for 1975.

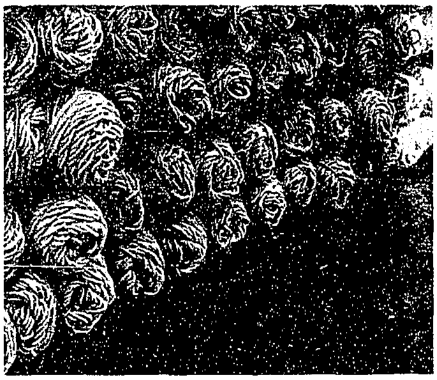
During the past four years of concentrated store building, SupeRx has opened 202 new stores and closed 109 smaller, older stores. Total number of stores rose from 458 at the end of 1971 to 551 at the end of 1975 . . . while total square footage went up nearly two million square feet during that period. Cost impact of the new store program has been severe but it has been a necessary step in SupeRx' development.

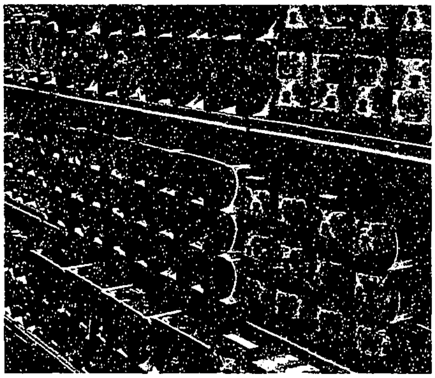
The store building program has been modified during the coming year to keep new stores in pace with the maturing of those stores already built. Nineteen new stores are planned for 1976. This will relieve the pressures of store openings and will enable the company's talents to be focused on merchandising and operation of present stores.

The number of prescriptions filled by SupeRx pharmacists again increased in 1975. Prescriptions remain the anchor department in SupeRx Drug Stores . . . the heart and keystone of the business.



*VALUE AND SATISFACTION FOR THE CONSUMER*

## Operating Results by Lines of Business

Sales for 1975 were $5.3 billion, an increase of 11.2% over 1974. Net earnings were $34.4 million compared to $45.2 million in 1974. Sales and earnings before extraordinary items by principal lines of business for the five years 1971 through 1975 were as follows:

| | **1975** | 1974 | 1973 | 1972 | 1971 |
|---|---|---|---|---|---|
| | | | (in millions of dollars) | | |
| Sales: | | | | | |
| Food Business | **$4,881** | $4,413 | $3,872 | $3,482 | $3,420 |
| Drug Stores | **458** | 390 | 348 | 317 | 295 |
| Total | **$5,339** | $4,803 | $4,220 | $3,799 | $3,715 |
| Earnings: | | | | | |
| Food Business | **$ 52.0** | $ 64.9 | $ 30.7 | $ 16.0 | $ 57.3 |
| Drug Stores | **6.7** | 16.9 | 16.2 | 12.9 | 9.7 |
| | **$ 58.7** | $ 81.8 | $ 46.9 | $ 28.9 | $ 67.0 |
| Taxes based on income | **24.8** | 38.0 | 22.0 | 11.8 | 31.6 |
| | **$ 33.9** | $ 43.8 | $ 24.9 | $ 17.1 | $ 35.4 |
| Equity in net earnings of unconsolidated companies | **.5** | 1.4 | 5.0 | 8.0 | 2.3 |
| Earnings before extraordinary items | **$ 34.4** | $ 45.2 | $ 29.9 | $ 25.1 | $ 37.7 |

## Quarterly Results

Sales for the fourth quarter of 1975 were $1.3 billion, an increase of 15.9% over the like period of 1974. Earnings of $9.9 million or 74¢ per share declined from earnings of $1.09 per share for the comparable period of 1974. Quarterly sales, earnings, earnings per share and common stock price range for 1975 and 1974 were as follows:

| | **Sales In Millions** | | **Earnings In Millions** | | **Earnings Per Share** | | **Common Stock Price Range** | |
|---|---|---|---|---|---|---|---|---|
| | **1975** | 1974 | **1975** | 1974 | **1975** | 1974 | **1975** | 1974 |
| 1st (12 Weeks) | **$1,160** | $1,069 | **$ 8.5** | $ 9.5 | **$ .63** | $ .70 | **24 -14⅞** | 24⅞-18¼ |
| 2nd (12 Weeks) | **1,194** | 1,101 | **8.5** | 8.1 | **.63** | .60 | **23⅝-19⅛** | 24½-18⅜ |
| 3rd (16 Weeks) | **1,649** | 1,481 | **7.5** | 13.0 | **.55** | .97 | **24⅛-19¼** | 20⅜-14¼ |
| 4th (12 Weeks) | **1,336** | 1,152 | **9.9** | 14.6 | **.74** | 1.09 | **21⅜-16½** | 18¾-14½ |
| | **$5,339** | $4,803 | **$34.4** | $45.2 | **$2.55** | $3.36 | | |

## Management's Analysis of Summary of Operations

The following is an analysis of the Company's operations for the years 1973, 1974 and 1975. Please refer to the Five Year Summary on page twenty for financial and other statistics.

The Company's sales increased 13.8% from 1973 to 1974 and 11.2% from 1974 to 1975. This sales increase reflected higher selling prices and, to a lesser extent, increased unit volume.

Net earnings in 1974 were substantially improved over 1973 resulting from the growing number of mature larger stores, the continued closing of unprofitable stores, the removal of economic controls in 1974, and the institution of internal efficiencies in merchandise distribution The Company's equity in net earnings of unconsolidated companies declined from $5.0 million in 1973 to $1.4 million in 1974. These earnings included net earnings of Top Value Enterprises, Inc., a wholly-owned unconsolidated subsidiary, amounting to $4.7 million in 1973 and $832 thousand in 1974. Top Value's earnings include gains on sale of securities, after applicable taxes, of $4.3 million and $254 thousand for the years 1973 and 1974, respectively. Net earnings of Top Value in 1973 also included a non-recurring year-end adjustment of $3.9 million resulting from a reduction in its liability for unredeemed trading stamps. Revenues and earnings of Top Value were adversely affected in 1974 as a result of the discontinuance of stamps by certain Kroger food store marketing areas and reduced issuance of stamps to gasoline service stations.

Net earnings of the Company in 1975 decreased from the $45.2 million reported in 1974 to $34.4 million. Many factors contributed to this decline. The renewal of intense retail food price competition, and our own resolve to improve our sales position resulted in lower gross margins on sales. The earnings performance of SupeRx Drug Stores was also diminished by lower gross margins as we engaged in heavy promotional activities and more aggressive pricing in order to improve sales. The effects of the lower food and drug gross margins were partially offset by concerted and successful expense control efforts in both entities. Prior to the end of 1975, a decision was made to close 12 food stores in metropolitan Cleveland. A provision for the known and anticipated costs relating to the discontinuance of these stores in the amount of $1.5 million, after applicable taxes, has been included in the 1975 financial statements. Net earnings of Top Value declined $854 thousand as compared to 1974. The further discontinuance of stamps by Kroger food stores and others was the principal cause of this decrease.

Despite the cost cutting efforts referred to above, the Company incurred significant increases in operating, general and administrative expenses during 1974 and 1975. These costs have increased due to substantially higher wage and utilities costs. Rent and depreciation for the past three years have increased as a result of the Company's store program which has emphasized larger stores and an increased number of openings. Interest on long-term debt has increased as a result of additional borrowings to finance this store program.

## Capital Expenditures

Capital expenditures for 1975 totaled $69.7 million down from $115.9 million in 1974. Expenditures in 1975 included $44.7 million or 64% of the total for retail stores and related equipment; $8.9 million for food processing facilities and equipment; and $10.1 million for distribution centers, equipment and vehicles. Investment tax credits in 1975 amounted to 49¢ per share compared to 38¢ per share in 1974. Capital expenditures for 1976 are projected to be approximately $85 million, the major portion of which will continue to be spent for retail stores and related equipment.

## Long-Term Financing

On April 15, 1975, Kroger sold $50 million of 9⅞% Notes due in 1983. This was the Company's third sale of its debt securities to the public. Approximately half of the proceeds from the sale were used to retire current maturities of long-term debt. The balance was added to the general funds of the Company and is available for working capital purposes and fixed investment.

## Dividends

Dividends of $1.36 per common share were paid in 1975 which marks the 74th consecutive year in which dividends have been paid out of current earnings. A dividend of 32½¢ per share was paid in the first quarter of 1974, and since then dividends have been paid at the rate of 34¢ per share each quarter. The regular quarterly dividend of 34¢ per share payable March 1, 1976, to shareowners of record January 30, 1976, was declared on January 9, 1976.

## CONSOLIDATED STATEMENT OF EARNINGS

| Years Ended December 27, 1975 and December 28, 1974 | **1975 (52 Weeks)** | 1974 (52 Weeks) |
|---|---|---|
| Sales | **$5,339,224,779** | $4,803,031,716 |
| Costs and Expenses: | | |
| Merchandise costs including warehousing and transportation | **$4,199,114,950** | $3,743,512,765 |
| Operating, general and administrative expenses | **935,457,124** | 848,068,737 |
| Rent | **83,282,429** | 74,486,963 |
| Depreciation and amortization | **49,549,358** | 43,893,389 |
| Interest income | **(2,545,367)** | (2,882,316) |
| Interest on long-term debt | **14,706,215** | 12,974,198 |
| Other interest expense | **913,330** | 1,141,679 |
| Taxes based on income | **24,787,774** | 38,028,540 |
| Total | **$5,305,265,813** | $4,759,223,955 |
| Earnings before equity in net earnings of unconsolidated companies | **$ 33,958,966** | $ 43,807,761 |
| Equity in net earnings of unconsolidated companies | **482,244** | 1,431,099 |
| Net earnings | **$ 34,441,210** | $ 45,238,860 |
| Average number of shares of common stock outstanding | **13,488,034** | 13,483,376 |
| Net earnings per share of common stock | **$ 2.55** | $ 3.36 |

## CONSOLIDATED STATEMENT OF ACCUMULATED EARNINGS

| Years Ended December 27, 1975 and December 28, 1974 | **1975** | 1974 |
|---|---|---|
| Accumulated earnings — Beginning of the year | **$ 340,388,826** | $ 313,379,502 |
| Net earnings for the year | **34,441,210** | 45,238,860 |
| Treasury stock transaction | | (141,195) |
| | **$ 374,830,036** | $ 358,477,167 |
| Dividends on common stock — $1.36 per share in 1975 and $1.34½ per share in 1974 | **18,298,199** | 18,088,341 |
| Accumulated earnings — End of the year | **$ 356,531,837** | $ 340,388,826 |

*The accompanying notes are an integral part of the financial statements.*

## CONSOLIDATED BALANCE SHEET

| ASSETS | DEC. 27, 1975 | DEC. 28, 1974 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and temporary cash investments | $ 77,034,554 | $ 51,606,312 |
| Receivables | 45,438,832 | 48,056,375 |
| Inventories | 485,601,604 | 471,031,265 |
| Store and general supplies | 5,776,160 | 5,729,080 |
| Prepaid and other current assets | 19,452,970 | 16,398,274 |
| Total current assets | $ 633,304,120 | $ 592,821,306 |
| **PROPERTY, PLANT AND EQUIPMENT** | | |
| Land | $ 16,523,119 | $ 17,266,049 |
| Buildings | 87,709,269 | 84,791,962 |
| Equipment | 424,046,172 | 414,402,373 |
| Leaseholds and leasehold improvements | 153,739,891 | 141,100,634 |
| | $ 682,018,451 | $ 657,561,018 |
| Allowance for depreciation and amortization | 271,569,056 | 256,013,945 |
| Property, plant and equipment, net | $ 410,449,395 | $ 401,547,073 |
| **INVESTMENTS AND OTHER ASSETS** | | |
| Investments in and advances to unconsolidated companies | $ 21,651,950 | $ 29,179,550 |
| Other investments, at cost, and other assets | 1,388,504 | 1,318,769 |
| Excess of cost of investments in consolidated subsidiaries over equities in net assets | 17,945,754 | 18,970,960 |
| Total investments and other assets | $ 40,986,208 | $ 49,469,279 |
| **Total Assets** | $1,084,739,723 | $1,043,837,658 |

| LIABILITIES | DEC. 27, 1975 | DEC. 28, 1974 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Current portion of long-term debt | $ 2,385,846 | $ 26,510,000 |
| Accounts payable | 246,868,992 | 236,580,988 |
| Accrued expenses | 117,530,974 | 105,089,431 |
| Accrued federal income and other taxes | 22,610,930 | 37,518,210 |
| Total current liabilities | $ 389,396,742 | $ 405,698,629 |
| OTHER LIABILITIES | | |
| Long-term debt | $ 171,584,046 | $ 123,825,322 |
| Deferred federal income taxes | 63,655,000 | 58,225,000 |
| Employees' benefit fund | 34,267,251 | 35,880,425 |
| Total other liabilities | $ 269,506,297 | $ 217,930,747 |
| **Total Liabilities** | $ 658,903,039 | $ 623,629,376 |

## SHAREOWNERS' EQUITY

| | | |
|---|---|---|
| Common capital stock, par $1, at stated value | | |
| Authorized: 18,000,000 shares | | |
| Issued: 1975 — 13,745,803; 1974 — 13,743,280 | $ 88,621,758 | $ 88,580,890 |
| Accumulated earnings | 356,531,837 | 340,388,826 |
| | $ 445,153,595 | $ 428,969,716 |
| Common stock in treasury, at cost — 256,673 shares | 8,761,434 | 8,761,434 |
| Net unrealized loss on marketable equity securities of unconsolidated subsidiary | 10,555,477 | |
| **Total Shareowners' Equity** | $ 425,836,684 | $ 420,208,282 |
| **Total Liabilities and Shareowners' Equity** | $1,084,739,723 | $1,043,837,658 |

*The accompanying notes are an integral part of the financial statements.*

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

| Years Ended December 27, 1975 and December 28, 1974 | 1975 (52 Weeks) | 1974 (52 Weeks) |
|---|---|---|
| SOURCES OF WORKING CAPITAL | | |
| From operations: | | |
| Net earnings | $ 34,441,210 | $ 45,238,860 |
| Charges (credits) to earnings not requiring funds: | | |
| Depreciation and amortization | 49,549,358 | 43,893,389 |
| Provision for deferred federal income taxes | 5,430,000 | 6,215,000 |
| Equity in net earnings of unconsolidated companies | ( 482,244) | (1,431,099) |
| *Total from operations* | $ 88,938,324 | $ 93,916,150 |
| Capital stock issued under option plans | 40,868 | 25,601 |
| Additions to long-term debt | 52,640,108 | |
| Net book value of capital asset disposals | 11,889,777 | 8,473,153 |
| Reductions of (increase in) other investments | ( 69,735) | 4,526,220 |
| Total sources | $153,439,342 | $106,941,124 |
| USES OF WORKING CAPITAL | | |
| Capital expenditures | $ 69,692,481 | $115,898,602 |
| Dividends paid | 18,298,199 | 18,088,341 |
| Reductions of long-term debt | 4,881,384 | 27,645,806 |
| Employees' benefit fund payments, net of provision | 1,613,174 | 1,936,412 |
| Other changes, net | 2,169,403 | 2,116,530 |
| Total uses | $ 96,654,641 | $165,685,691 |
| Net increase (decrease) in working capital | $ 56,784,701 | $(58,744,567) |

### ANALYSIS OF WORKING CAPITAL CHANGES

| | Increase (Decrease) | |
|---|---|---|
| Current asset changes: | | |
| Cash and temporary cash investments | $ 25,428,242 | $ (18,799,793) |
| Inventories | 14,570,339 | 57,607,091 |
| Other current assets | 484,233 | (20,100,235) |
| Net increase in current assets | $ 40,482,814 | $ 18,707,063 |
| Current liability changes: | | |
| Current portion of long-term debt | $(24,124,154) | $ 25,000,000 |
| Accounts payable | 10,288,004 | 24,249,375 |
| Accrued expenses and taxes | ( 2,465,737) | 28,202,255 |
| Net increase (decrease) in current liabilities | $(16,301,887) | $ 77,451,630 |
| Net increase (decrease) in working capital | $ 56,784,701 | $(58,744,567) |

*The accompanying notes are an integral part of the financial statements.*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in preparing the Company's financial statements. These policies conform to generally accepted accounting principles and have been consistently applied. For the change in the method of valuing marketable equity securities owned by an unconsolidated subsidiary, refer to the Unconsolidated Companies note.

### Principles of Consolidation

The consolidated financial statements include the Company and all of its domestic subsidiaries except Top Value Enterprises, Inc. and certain partially-owned affiliated companies, all of which are included in the statement of earnings on the equity basis.

A subsidiary company which had previously been reported on the equity basis is included on a consolidated basis beginning in 1975. The 1974 consolidated financial statements have been restated for comparative purposes to reflect this change. The change in consolidation policy had no effect on 1975 or previously reported net earnings and no significant effect on the overall financial statements. Certain other amounts in the financial statements for 1974 have been reclassified to conform to the 1975 presentation.

### Inventories

The inventories are valued at the lower of cost or market with cost determined on the retail and first-in, first-out methods.

### Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization is computed principally on the straight-line basis. All maintenance and repairs are charged to earnings. Betterments and renewals which increase the value or productive capacity of assets are capitalized.

### Excess of Cost of Investments in Consolidated Subsidiaries Over Equities in Net Assets

The excess of cost of investments in consolidated subsidiaries over equities in net assets at dates of acquisition originating prior to November, 1970 is not being amortized because, in the opinion of management, there has been no decrease in value. Amounts arising after October, 1970 are not significant and are being amortized on the straight-line basis over forty years.

### Deferred Federal Income Taxes and Investment Tax Credit

Deferred federal income taxes include the amount of tax applicable to the excess of depreciation for tax purposes over the normal depreciation used for financial reporting purposes and the amount of tax applicable to the change in 1973 from the LIFO (last-in, first-out) to the FIFO (first-in, first-out) method of inventory valuation, net of the amount of tax credits applicable to the unfunded portion of employees' benefit fund expense which has been charged to earnings.

Investment tax credits are included as reductions of income tax expense in the years in which the credits arise.

## PENSION PLANS

The Company has two noncontributory retirement plans for eligible employees, one funded and one unfunded. The Company also contributes to multi-employer plans jointly administered by management and union representatives.

The actuarially computed value of vested benefits for the Company administered plans as of December 27, 1975, exceeded the total of the pension fund and balance sheet accruals by approximately $46,050,000. Past service costs for the Company's plans are being amortized over forty years.

The total pension expense for all plans for 1975 and 1974 was $33,707,503 and $29,091,543, respectively. As a result of the Pension Reform Act of 1974, both Company plans have been revised as of January 1, 1976. These revisions will not have a significant impact upon subsequent financial statements of the Company.

## LEASES

The Company operates principally in leased premises. Lease terms generally range from ten to twenty-five years with options of renewal for additional periods. Options provide in some cases for renewals at reduced rentals and/or the right to purchase. The Company's lease arrangements have been classified as either noncapitalized finance leases or operating leases for purposes of this disclosure in accordance with the requirements of the Securities and Exchange Commission.

Rent expense on all leases consists of:

| 1975 | Finance Leases | Operating Leases | Total |
|---|---|---|---|
| Minimum rentals, net of minor sublease rentals | $19,005,498 | $58,747,539 | $77,753,037 |
| Contingent rental payments | 782,428 | 4,746,964 | 5,529,392 |
| Total | $19,787,926 | $63,494,503 | $83,282,429 |
| **1974** | | | |
| Minimum rentals, net of minor sublease rentals | $17,347,464 | $52,729,512 | $70,076,976 |
| Contingent rental payments | 1,016,264 | 3,393,723 | 4,409,987 |
| Total | $18,363,728 | $56,123,235 | $74,486,963 |

Certain of the leases provide for contingent rental based upon a percent of sales.

Aggregate minimum annual rentals, net of subleased rentals which are minor in amount, for leases in effect at December 27, 1975 are as follows:

| | Finance Leases | Operating Leases | Total |
|---|---|---|---|
| 1976 | $ 19,354,000 | $ 58,275,000 | $ 77,629,000 |
| 1977 | 19,091,000 | 54,400,000 | 73,491,000 |
| 1978 | 19,008,000 | 50,981,000 | 69,989,000 |
| 1979 | 18,948,000 | 47,827,000 | 66,775,000 |
| 1980 | 18,540,000 | 44,763,000 | 63,303,000 |
| 1981-1985 | 87,913,000 | 191,267,000 | 279,180,000 |
| 1986-1990 | 71,991,000 | 140,750,000 | 212,741,000 |
| 1991-1995 | 48,565,000 | 68,318,000 | 116,883,000 |
| 1996 and thereafter | 29,317,000 | —0— | 29,317,000 |
| | $332,727,000 | $656,581,000 | $989,308,000 |

The present value of all future payments on noncapitalized finance leases at December 27, 1975 and December 28, 1974 on real property amounted to $161,354,000 and $157,670,000, respectively. Interest rates used in the present value computation ranged from 4.5%-11.5% and the weighted average interest rates used were 7.7% and 7.3% for 1975 and 1974, respectively.

If all noncapitalized finance leases were capitalized, the effect on net earnings for the years ended December 27, 1975 and December 28, 1974 would have been as follows:

| | 1975 | 1974 |
|---|---|---|
| Rental payments, net of related taxes and insurance | $ 18,036,000 | $ 16,566,000 |
| Amortization of property rights on a straight-line basis | ( 8,928,000) | ( 8,363,000) |
| Interest expense | (12,096,000) | (10,779,000) |
| | $( 2,988,000) | $( 2,576,000) |
| Taxes based on income | 1,545,000 | 1,323,000 |
| Decrease in net earnings | $( 1,443,000) | $( 1,253,000) |

## UNCONSOLIDATED COMPANIES

The Company's equity in the net earnings of unconsolidated companies includes the net earnings (loss) of Top Value Enterprises, Inc. in the amount of $(21,860) for 1975 and $832,097 for 1974.

A condensed balance sheet of Top Value Enterprises, Inc. is as follows (in thousands of dollars):

| Assets | 1975 | 1974 |
|---|---|---|
| Marketable securities: | | |
| Equity securities | $ 31,814 | $ 53,338 |
| Bonds and notes, at cost (approximate market value $9,944 in 1975) | 13,060 | 13,060 |
| | $ 44,874 | $ 66,398 |
| Investment in Family Leisure Centers, Inc. and other | 27,640 | 21,843 |
| Inventories and accounts receivable | 27,674 | 36,495 |
| Other | 24,148 | 18,232 |
| | $124,336 | $142,968 |

| Liabilities and Shareowner's Equity | 1975 | 1974 |
|---|---|---|
| Unredeemed trading stamps and other liabilities | $ 90,210 | $110,810 |
| Short-term notes payable | 8,000 | |
| Installment note payable | 11,000 | 6,500 |
| Shareowner's equity (reduced by net unrealized loss on marketable equity securities of $10,555 in 1975) | 15,126 | 25,658 |
| | $124,336 | $142,968 |

At year-end 1975, marketable equity securities (common and preferred stock) are carried at the lower of cost or market. In accordance with Statement of Financial Accounting Standards No. 12, a valuation allowance was established for the excess of cost over market of these equity securities by a $10,555,477 (net of related tax effect of $4,523,775) charge to shareowners' equity representing the net unrealized loss. The portfolio of equity securities included gross unrealized gains and losses amounting to $353,664 and $15,432,916, respectively. Equity securities were carried at cost in prior years. These equity securities had a cost in excess of market value of $23,592,201 at year-end, 1974. In management's opinion there is no indication of a permanent loss in value and there is no intent to liquidate the securities portfolio at less than cost.

Net realized gains, after applicable taxes, on the sale of securities included in the determination of net earnings for 1975 and 1974 amounted to $320,472 and $253,724, respectively. The cost of marketable securities sold is determined on the specific issue method.

Marketable securities with a market value of $34,993,000 were pledged at 1975 year-end as described below. Certain of these securities collateralize Top Value's short-term notes payable of $8,000,000 and its installment note payable of $11,000,000. Top Value owns 50% of Family Leisure Centers, Inc. (FLC), a corporate joint venture, which is engaged in the construction and operation of amusement parks. Top Value has guaranteed $16,850,000 of loans to FLC and has pledged marketable securities for its guarantee of $9,600,000 of such loans. The Kroger Co. is co-guarantor with Top Value of $7,250,000 of these loans to FLC.

Investments in and advances to unconsolidated companies at December 27, 1975 include:

| | |
|---|---|
| Top Value Enterprises, Inc., at cost plus share of undistributed earnings since acquisition (marketable equity securities carried at market) | $19,171,443 |
| Other partially-owned affiliated companies, at cost plus share of undistributed earnings since acquisition | 2,480,507 |
| | $21,651,950 |

## DEBT OBLIGATIONS

Long-term debt at December 27, 1975 included:

| | |
|---|---|
| 5¼% notes, $2,100,000 maturing in 1978, and $900,000 maturing in 1979; with annual payments of $500,000 in 1976 and 1977 and $150,000 in 1978 | $ 4,150,000 |
| 5.3% notes maturing in 1981; with annual payments of $750,000 | 7,500,000 |
| 9⅞% notes maturing in 1983 | 50,000,000 |
| 9% sinking fund debentures maturing in 1995; with annual payments of $2,500,000 required from 1977 through 1995 | 47,400,000 |
| 8.70% sinking fund debentures maturing in 1998; with annual payments of $3,000,000 required from 1979 through 1998 | 60,000,000 |
| 5% to 11% notes; annual payments due in varying amounts through 1985 | 4,919,892 |
| | $173,969,892 |
| Less amount due within one year | 2,385,846 |
| | $171,584,046 |

Under certain of the loan agreements, payments of cash dividends are limited. Under the most limiting agreement, accumulated earnings were unrestricted in the amount of $66,183,878 at December 27, 1975.

Short-term borrowings of the Company averaged $8,804,541 and have ranged up to $36,700,000 during 1975 at a weighted average annual interest cost of 8.8%.

## TAXES BASED ON INCOME

The provision for taxes based on income consists of:

| | 1975 | 1974 |
|---|---|---|
| Federal | | |
| Current | $12,625,000 | $24,292,000 |
| Deferred | 5,430,000 | 6,215,000 |
| | $18,055,000 | $30,507,000 |
| State and Local | | |
| Current | 6,732,774 | 7,521,540 |
| Total | $24,787,774 | $38,028,540 |

The provision for taxes based on income is lower than the normal statutory corporate tax rate principally due to investment tax credits which reduced the tax provision by $6,657,000 in 1975 and $5,082,000 in 1974.

The Company follows the practice of reinvesting permanently the earnings of subsidiaries in order to meet the requirements of the business and, therefore, has not considered any additional tax provision to be appropriate. Undistributed earnings, exclusive of those amounts which if remitted in the near future would result in little or no tax because of current income tax laws, are not material in amount.

### COMMON STOCK

Changes in common stock during 1974 and 1975 were as follows:

| | Issued | | Treasury | |
|---|---|---|---|---|
| | Shares | Amount | Shares | Amount |
| Balance, Dec. 29, 1973 | 13,741,977 | $88,555,289 | 264,923 | $9,082,562 |
| Exercise of options | 1,303 | 25,601 | | |
| Issued | | | (8,250) | (321,128) |
| Balance, Dec. 28, 1974 | 13,743,280 | $88,580,890 | 256,673 | $8,761,434 |
| Exercise of options | 2,523 | 40,868 | | |
| Balance, Dec. 27, 1975 | 13,745,803 | $88,621,758 | 256,673 | $8,761,434 |

Under a compensation agreement, during 1974 the Company issued 8,250 shares of common stock held in the Company's treasury. The shares issued had a fair market value at the date of transfer of $179,933. The excess of the cost of such shares over the fair market value at the date of issue has been charged to accumulated earnings.

### PREFERRED STOCK

The Company has authorized 750,000 shares of voting cumulative preferred stock. The stock has a par value of $50 per share and is issuable in series. None is outstanding at December 27, 1975.

### STOCK OPTION PLANS

At December 27, 1975, options were outstanding to purchase 419,886 shares of common stock under the 1965 and 1969 Stock Option Plans (of which options on 203,279 shares were exercisable at that date) at prices ranging from $15.56 to $26.75 a share. Each option outstanding was granted at an option price equal to the fair market value of the stock at the date of grant. No further options may be granted under the 1965 Plan. At December 27, 1975, there were 9,986 shares available under the 1969 Plan for future grants of options at any time prior to expiration of the Plan in 1979.

Changes during 1975 in options outstanding under the Stock Option Plans of the Company were as follows:

| | Shares Subject To Option | Option Price Range Per Share |
|---|---|---|
| Outstanding December 28, 1974 | 326,523 | $15.56 - $28.69 |
| Granted | 115,590 | $17.25 - $21.56 |
| Exercised | (2,523) | $15.56 - $17.81 |
| Cancelled or expired | (19,704) | $15.56 - $28.69 |
| Outstanding December 27, 1975 | 419,886 | $15.56 - $26.75 |

## REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

To the Shareowners and Board of Directors
The Kroger Co.

We have examined the consolidated balance sheet of The Kroger Co. and Consolidated Subsidiary Companies as of December 27, 1975, and the related consolidated statements of earnings, accumulated earnings and changes in financial position for the 52 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Top Value Enterprises, Inc., an unconsolidated subsidiary. These statements were examined by other independent certified public accountants whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Top Value Enterprises, Inc., is based solely upon the report of the other accountants. Their opinion for the year 1975 was qualified as to consistent application of accounting principles for the change, with which they concurred, in the method of valuing marketable equity securities as explained under the caption Unconsolidated Companies in Notes to Consolidated Financial Statements. We previously examined and reported upon the consolidated financial statements of The Kroger Co. and Consolidated Subsidiary Companies for the 52 weeks ended December 28, 1974.

In our opinion, based upon our examination and the report of other accountants, the above referred to financial statements present fairly the consolidated financial position of The Kroger Co. and Consolidated Subsidiary Companies at December 27, 1975 and December 28, 1974, and the consolidated results of their operations and changes in financial position for the 52 week periods then ended in conformity with generally accepted accounting principles applied on a consistent basis except as indicated in the preceding paragraph

Coopers & Lybrand
3800 Carew Tower
Cincinnati, Ohio 45202
February 13, 1976

Coopers & Lybrand

## FIVE YEAR SUMMARY

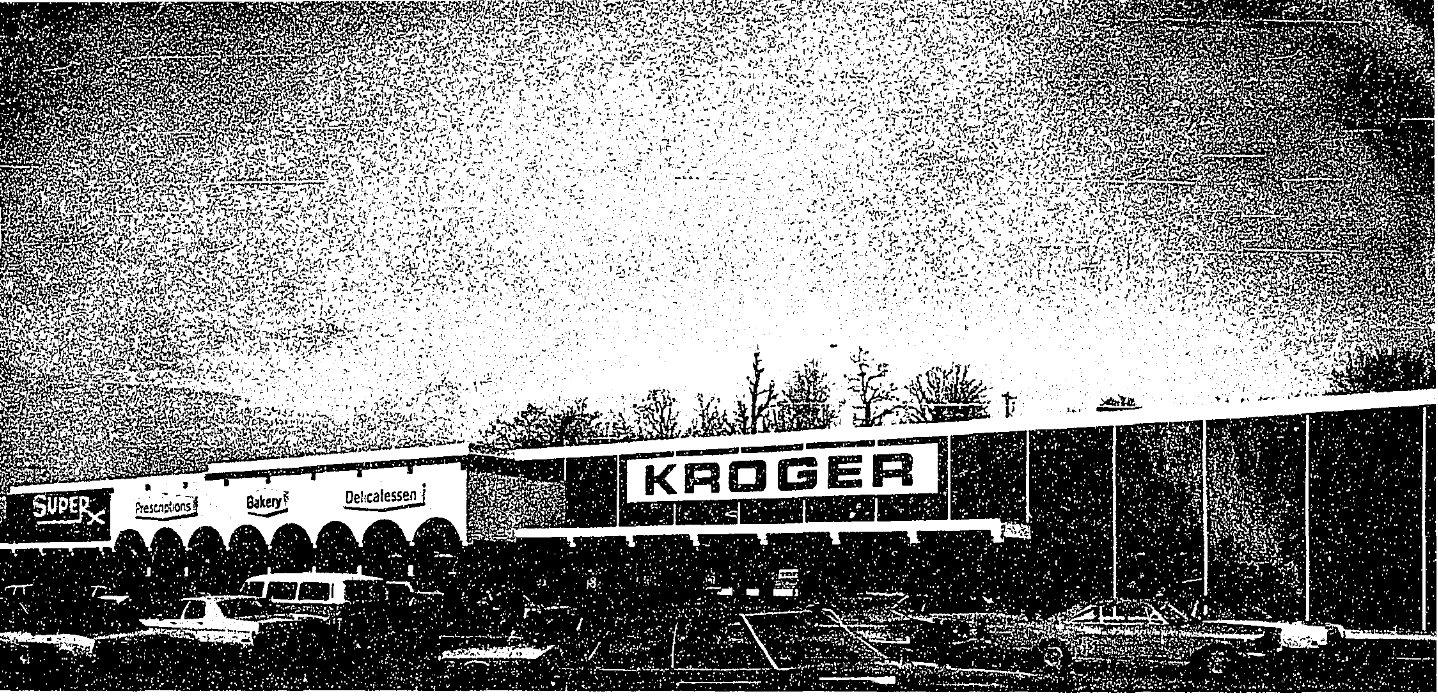
| OPERATIONS *(thousands of dollars, except per share figures)* | 1975 | 1974 | 1973 | 1972 | 1971 |
|---|---|---|---|---|---|
| Sales | $ **5,339,225** | 4,803,032 | 4,219,753 | 3,799,019 | 3,715,096 |
| Costs and Expenses, excluding Taxes Based on Income | $ **5,280,478** | 4,721,195 | 4,172,837 | 3,770,137 | 3,647,979 |
| Taxes Based on Income | $ **24,788** | 38,029 | 22,004 | 11,762 | 31,638 |
| Equity in Net Earnings of Unconsolidated Companies | $ **482** | 1,431 | 5,004 | 8,007 | 2,268 |
| Earnings Before Extraordinary Items | $ **34,441** | 45,239 | 29,916 | 25,127(a) | 37,747(b) |
| Net Earnings | $ **34,441** | 45,239 | 29,916 | 20,373 | 33,691 |
| Dividends | $ **18,298** | 18,088 | 17,461 | 17,407 | 17,370 |
| Per Share | | | | | |
| Earnings Before Extraordinary Items | $ **2.55** | 3.36 | 2.22 | 1.87(a) | 2.82(b) |
| Net Earnings | $ **2.55** | 3.36 | 2.22 | 1.51 | 2.52 |
| Dividends | $ **1.36** | 1.34½ | 1.30 | 1.30 | 1.30 |

| BALANCE SHEET STATISTICS *(thousands of dollars, except per share figures)* | 1975 | 1974 | 1973 | 1972 | 1971 |
|---|---|---|---|---|---|
| Inventories | $ **485,602** | 471,031 | 413,424 | 358,038 | 327,559 |
| Working Capital | $ **243,907** | 187,123 | 245,867 | 178,743 | 189,603 |
| Property, Plant and Equipment, net | $ **410,449** | 401,547 | 334,873 | 332,065 | 325,271 |
| Total Assets | $ **1,084,740** | 1,043,838 | 962,397 | 873,577 | 816,265 |
| Long-Term Debt | $ **171,584** | 123,825 | 151,471 | 94,017 | 93,246 |
| Shareowners' Equity | $ **425,837** | 420,208 | 392,852 | 380,041 | 376,624 |
| Per Share of Common | $ **31.57** | 31.16 | 29.15 | 28.24 | 28.03 |

| OTHER STATISTICS *(dollars and shares in thousands)* | 1975 | 1974 | 1973 | 1972 | 1971 |
|---|---|---|---|---|---|
| Capital Expenditures | $ **69,692** | 115,899 | 68,896 | 55,335 | 48,813 |
| Depreciation and Amortization | $ **49,549** | 43,893 | 41,537 | 38,910 | 38,478 |
| Rent | $ **83,282** | 74,487 | 66,019 | 60,114 | 56,451 |
| Interest Expense | $ **15,620** | 14,116 | 12,199 | 8,921 | 10,140 |
| Interest Income | $ **2,545** | 2,882 | 1,383 | 706 | 650 |
| Common Shares Outstanding | **13,489** | 13,487 | 13,477 | 13,455 | 13,436 |
| Number of Shareowners | **44,941** | 45,766 | 46,436 | 44,893 | 42,182 |
| Number of Regular Employees | **56,969** | 55,477 | 50,400 | 52,119 | 52,073 |

| RETAIL FACILITIES *(areas in thousands of square feet)* | 1975 | 1974 | 1973 | 1972 | 1971 |
|---|---|---|---|---|---|
| Supermarkets | | | | | |
| Opened | **71** | 83 | 80 | 59 | 67 |
| Remodeled | **40** | 84 | 68 | 57 | 74 |
| Closed | **92** | 127 | 160 | 126 | 157 |
| Stores — End of Year | **1,220** | 1,241 | 1,285 | 1,365 | 1,432 |
| Total Area | **26,415** | 25,594 | 24,706 | 24,896 | 25,688 |
| Drug Stores | | | | | |
| Opened | **56** | 64 | 36 | 46 | 47 |
| Closed | **27** | 35 | 19 | 28 | 20 |
| Stores — End of Year | **551** | 522 | 493 | 476 | 458 |
| Total Area | **6,234** | 5,633 | 4,883 | 4,525 | 4,253 |

*(a) Represents earnings before extraordinary loss of $5,340,920 or $.40 per share arising from discontinuance of Family Center operations and credit of $586,877 or $.04 per share resulting from a change in the method of applying an accounting principle.*
*(b) Represents earnings before extraordinary loss of $4,056,000 or $.30 per share arising from discontinuance of Wisconsin operations.*




# OPERATING AND STAFF VICE PRESIDENTS

## CORPORATE STAFF

WILLARD R BEDELL, *Labor Relations*
CARL W. BRIESKE, *Tax Counsel*
RUDOLPH P. GALLAT, *Corporate Economist*
LORRENCE T. KELLAR, *Allied Businesses*
C MANLY MOLPUS, *Public Affairs*
HAROLD P. TEMPLETON, *Special Projects*

## KROGER FOOD STORES

### Headquarters Staff

RICHARD L BERE, *Produce Merchandising*
ROBERT L. COTTRELL, *Store Operation Services*
BOBBIE L. CRISWELL, *Distribution Operations*
F. LELAND DAVIS, *Advertising*
JACK G HUDSON, *Controller*
THADDEUS J KACZMAROWSKI, *Facility Engineering*
WALTER W. WHITE, *Distribution Administration*

### Retail Operations

BILL G. BEATY, *Central Marketing Area*
DONALD J BERENS, *Nashville Operations*
NEWTON W. BRIGGS, *Charleston Operations*
DAVID A. BURT, *Michigan Marketing Area*
RONALD G DAUGHERTY, *Indianapolis Operations*
WALTER R. DRYDEN, *Columbus Marketing Area*
ROBERT G. EVERINGHAM, *Houston Marketing Area*
ROBERT L. HAYDEN, *Market Basket Marketing Area*
JAMES A. LeROY, *Delta Marketing Area*
NERVILLE A SAWALL, *Louisville Marketing Area*
RICHARD D SCHILL, *Dallas Marketing Area*
EDWIN A. SIEVEKING, *Erie Marketing Area*
CHARLES L. THOMAS, JR., *Southland Marketing Area*
ADRIAN L. VANNICE, *Erie Marketing Area Operations*
CHARLES W WHITE, *Gateway Marketing Area*

## KROGER FOOD PROCESSING

STUART M. BERMAN, *Baked Foods Division*
RALPH H. DeSHA, *Processed Meats Division*
FERD M. KISRO, *Poultry and Egg Division*
GEORGE M LAUGHLIN, *Grocery Products Division*
RONALD R. RICE, *Dairy Foods Division*

## SUPERx DRUG STORES

### Headquarters Staff

N. RONALD ADAMS, *Finance*
GENE M. BEARD, *Marketing*
ALBERT G. HARSNETT, *Sales*
WILLIAM J. HOWE, *Administrative Services*
DAVID W. KUNERT, *Property*
GORDEN P. SAUE, *Operations*

### Retail Operations

CLARENCE H ARCHER, *Western Division*
WILBERT K. BAUMGARTH, *South Central Division*
CLIFFORD F CLEAGE, *South Eastern Division*
E. HUGH OXENHANDLER, *Eastern Division*
JAMES A. SPECHT, *Ohio Division*
EDMOND M. SHIPP, *Florida Division*

## HAPPY FOOD STORES

SAMUEL D. THOMPSON, JR., *President*

Kroger **The Kroger Co.** 1014 Vine Street, Cincinnati, Ohio 45201